

PHILIP MORRIS U.S.A.

INTER-OFFICE CORRESPONDENCE
120 Park Avenue, New York, NY 10017

TO: Mr. R. William Murray

DATE: June 20, 1988

FROM: Frank E. Resnik

SUBJECT: CAPITAL APPROPRIATION REQUEST:
PROJECT DELTA SMOKING ARTICLE

Philip Morris U.S.A. requests approval of \$71,000,000 for equipment and a facility to assemble the Project Delta Smoking Article in quantities equivalent to 1/4 of 1% share of market. The smoking article is comprised of a front section or "flavor generator" and a rear section designed to present a product resembling a conventional cigarette.

This capital appropriation consists of four parts: flavor generator equipment, making equipment, packing equipment, and final assembly facility.

The flavor generator is comprised of a holding tube, carbon heat source, and a tobacco column. The carbon heat source requires proprietary process know-how and specialized equipment. Therefore, we have chosen an outside supplier to produce the heat source under a confidentiality agreement. The holding tube and tobacco processing equipment will be purchased and installed in-house.

The flavor generator components will be assembled using a custom designed machine. The machine is currently under development and will be capable of assembling two thousand flavor generator units per minute. A total of five assembly machines will be required to support the project.

The making equipment includes the purchase, modification and installation of Protos/Max 80 maker complexes, HCF-80 trayfillers, KDF-2 plug makers, Polar plug reservoir, Aphis distributors, and tray unloaders. This equipment will make the rear section and combine it with the front section.

The packing equipment includes the purchase and installation of four G.D X-2 modified packers, two tray unloaders, one Focke case packer, carton handling equipment, and associated inspection systems.

In the event no viable market develops for this product, the making and packing equipment can be remodified and used in our cigarette operations.

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Regarding the patent situation, R. J. Reynolds has made extensive patent filings for its device. While there is a likelihood that Reynolds may charge Philip Morris with infringement of its patents, we have been advised by patent counsel that there are substantial defenses to those charges. Philip Morris has also made patent filings on these devices and we are confident that we can bring to market a competing product.

This project was included in the Original Capital Expenditures Forecast and the 1988-1992 Five Year Plan for \$113,354,000.

FER:jag
40001
Attachment

J. E. Resnik

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